ASSOCIATION OF
CYPRUS BANKS

Annual Report
2012-2013

Annual Report
2012-2013

CONTENTS

1 MESSAGE FROM THE DIRECTOR GENERAL 4

2 ECONOMIC ENVIRONMENT 6

- The Cyprus Economy 7
- Main economic indicators 11
- Stock market developments 12

3 THE BANKING SECTOR 14

- General Overview 15
- Commercial Banking & Key Figures 16
- Financial Intermediation 17
- Bank Credit by Sector 18
- Credit and Debit Card Transactions 19

4 YEAR UNDER REVIEW 20

- Bank resolution, bail-in and the Cyprus experience 21
- Cyprus Economic Adjustment Programme – Fiscal Reforms 23
- Anti-money Laundering Regulation in Cyprus 25
- Regulation on SEPA migration end-date and the mandatory use of IBAN 27
- FATCA implementation in Cyprus 28
- The Financial Ombudsman 30
- Limitation of Actions 31
- Artemis Bank Information Systems Ltd 33
- ACB's Training Activities 34
- Publications 34
- Cyprus Bankers' Employers' Association 35

5 The ACB 36

- Background 37
- Mission 37
- Organizational Framework 38
- The Member Banks 39
- ACB Events in 2012 / 2013 42

1 Message from the Director General

The recent decisions taken by the Eurogroup have had profound and ongoing effects on the configuration of the future of the Cypriot economy and its banking sector. The consequences of these decisions have redefined the scene and led to a redrafting of the economic model of the country.

While Cyprus had no alternative but to accept the harsh and painful deal offered by its partners, the Euro Area – by the decisions of its leaders – took a grave credibility hit which undermines any efforts towards a deeper and more substantial European integration.

The decision to immediately place Cyprus Popular Bank under resolution by bailing-in shareholders, bondholders and especially depositors (who stand to lose the largest portion of their deposits over €100,000) and to recapitalize Bank of Cyprus by converting the required amount of deposits into shares, following the bail-in of shareholders and bondholders, is unprecedented. The effectiveness of this practice is dubious, whereas its ramifications could destabilize and weaken the European Union itself. The exact consequences will materialize in the coming months and years when Europe and the Euro Area will be repeatedly called to administer the ongoing financial crisis which is expected to keep resurfacing in different forms.

The decision to bail-in depositors to recapitalize Cypriot banks was taken after three years of continuous support of the European banking sector with trillions of state money, even in robust Eurozone economies. Specifically, according to the European Commission, between 1 October 2008 and 1 October 2011, the European Commission approved state aid for the banking sector of €4.5 trillion (36.7% of the European Union's GDP). Notably, the funds to rescue banks did not only come from the relevant banks' member states but also from their Eurozone partners through rescue programs, as well as indirectly from the European Central Bank.

It should be stressed that Cypriot banks had not purchased securitized US housing loans or other toxic products. Up until the Euro Summit decision of 26 October 2011, when the sharp write-down of Greek state bonds was decided, Cypriot banks proved to be remarkably resilient to international and domestic shocks. The Greek PSI cost the three largest Cypriot banks a total amount of €4.5 billion, an amount equivalent to 25% of the country's gross domestic product.

Several days prior to this political decision, the International Monetary Fund mission that had just completed the regular review of the Cypriot economy and banking sector based on Article IV procedures (October 12, 2011 Article IV Consultation Concluding Statement of the Mission), concluded: "Cyprus' large banking sector, with assets of over eight times GDP, is a pillar of the economy, directly generating a high share of jobs and income, and indirectly supporting other business services. Cypriot banks have a number of strengths, including limited exposure to securitized assets and predominant reliance on deposits rather than wholesale market funding."

Despite the short term effects of the violent shrinkage of the banking sector, according to the Eurogroup's decisions on 25th March, the Memorandum of Understanding with the Troika ensures that the public debt of Cyprus will be sustainable and the banking sector's capital adequacy will be robust. This will render Cyprus economically viable in the coming years and provide international investors with adequate reasons to reaffirm their presence in the Cypriot economy.

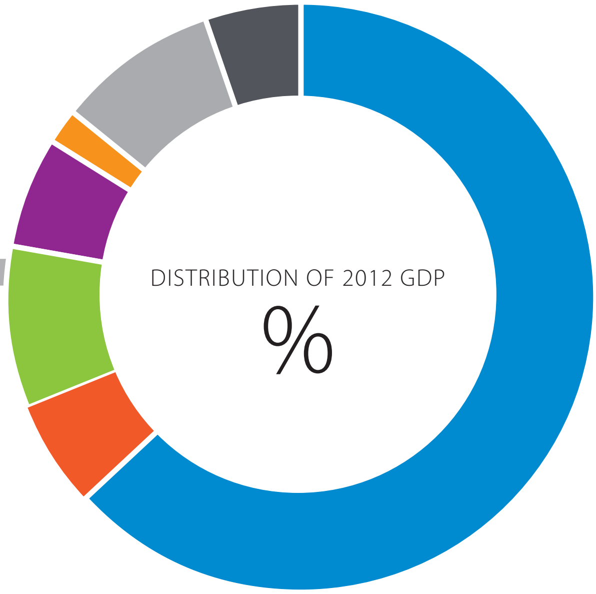
Importantly, the decisions taken do not have a large impact on Cyprus's tax system which, together with the extensive network of double tax treaties and the excellent infrastructure of the island, should be the cornerstone to continue the provision of financial services in the future. All comparative advantages (tax, legal, regulatory) enjoyed to date by companies registered in Cyprus have remained intact, with the exception of the marginal increase in the corporate tax rate (from 10% to 12.5%) and the increase to 30% of the special defense tax on deposit interest payable to Cyprus residents (currently 15%).

Not only does Cyprus continue to remain advantageous as a holding company jurisdiction, but its position is expected to be further reinforced with the implementation of the latest government measures to attract international companies and investors. In addition, Cyprus remains a modern European and international shipping centre while its natural resources – the exploitation of which is currently under way – provide positive prospects towards the island's economic recovery. The following years are bound to be hard but Cyprus stands ready to deliver a second economic miracle, equivalent to the previous one.

Dr. Michael Kammas
Director General

2 Economic Environment

E C O N O M I C   E N V I R O N M E N T



The Cyprus Economy

Economic events in the past twelve months were dominated by the decisions of the Eurogroup on 25 March and the conclusion of an agreement with the troika (IMF, European Commission and European Central Bank) for a loan agreement of €10 billion and for funding from own resources. The Eurogroup's decision included the restructuring of the banking sector of the island. A significant amount of wealth as proportion to GDP was eliminated following the bail-in of uninsured deposits which included their write-down and conversion into equity. Fiscal consolidation measures for curbing public expenditure (such as cuts in emoluments of public sector employees and pensioners) and measures to increase government revenue stipulated by the economic adjustment programme are expected to reduce disposable income and demand and have a negative effect on the level of economic activity. As a consequence of the wealth reduction and of austerity measures to be implemented, the Cypriot economy is facing a downturn of around 8.7% in 2013, according to the European Commission's Spring 2013 Forecasts.

During 2012 the deterioration of the Cypriot economy persisted, as real GDP contracted by 2.4%. The decline was driven by a marked contraction of domestic demand against the background of falling consumption and private investment. Private consumption was affected by the fiscal consolidation measures which begun to be implemented at the end of 2011, while the prolonged uncertainty until the finalization of the agreement for financial assistance also dented confidence. This is evidenced by the Economic Sentiment Indicator (published by the Economics Research Centre of the University of Cyprus) which summarizes firms' and consumers' expectations about economic conditions. This indicator has been declining to historic lows in the past months and portrays business and consumer confidence in Cyprus to be among the lowest in the EU. The loss of confidence foretells continuing economic decline. In addition, the tightening of domestic credit conditions and deleveraging of the banking sector are also expected to have adverse effects on investment, employment and activity.

PERCENTAGE DISTRIBUTION OF 2012 GDP

Services including tourism	63%
Manufacturing	6%
Transport & Communications	9%
Construction	6%
Agriculture	2%
Financial Intermediation	9%
Others	5%

Source: Statistical Service of Cyprus (provisional data for 2012)

The strong contraction in the construction sector continued throughout 2012 and this is expected to persist, as evidenced by the 33% reduction in the total area of building permits issued in 2012 compared to 2011. The decline of the construction sector is reflected on real estate prices. According to the residential property price indices which are prepared by the Central Bank of Cyprus's Real Estate Unit (REU) in collaboration with the member banks of the Association, during the fourth quarter of 2012, prices of residences were down by 4.8% on a yearly basis, compared to the corresponding quarter in 2011.

The tourism sector was the main driver of economic growth in the past year, and revenues from tourism for the year 2012 were 10.2% higher than in 2011. Prospects remain favorable due to the continuing high levels of arrivals from Russia. Furthermore, new tourism-related infrastructure projects are being completed (such as the Limassol marina) while the new government is set to press ahead with new projects to strengthen the attractiveness of the tourism product, such as casinos and golf courses. In addition, business services still contribute positively to growth, albeit at declining rates than in previous years, as evidenced by the lower number of company registration applications during 2012, which were 7.7% below the levels of 2011.

Labour market conditions have worsened in 2012 with the unemployment rate reaching a record 11.9% average for the year, reflecting the contraction in economic activity. Notably, the number of registered unemployed has been growing at double-digit rates every month in 2012 compared to the corresponding months in 2011. Job losses were particularly pronounced in the construction and agricultural sectors.

As a result of subdued domestic demand and of the easing in the international oil and food-related commodity prices, inflation declined in 2012 to 3.1% compared to 3.5% in 2011 (harmonized index of consumer prices). Inflation is expected to lower further in 2013 in spite of the higher indirect taxes.

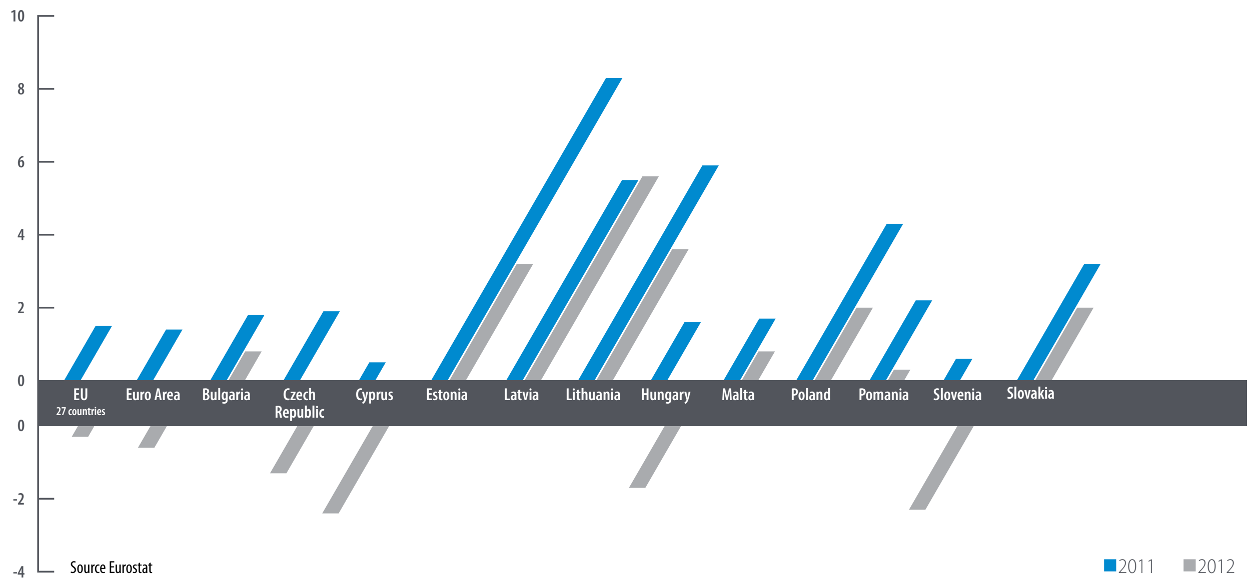
As part of the economic adjustment programme, the Cyprus government has committed to implement a number of structural measures and reforms aimed at enhancing efficiency of the public sector, improving market competition and promoting competitiveness. Even though these are not expected to yield any immediate results, their prompt implementation will enhance confidence and credibility and lay the foundations of economic recovery.

GDP REAL, % CHANGE	2008	2009	2010	2011	2012	2013F	2014F
Cyprus	3.6	-1.9	1.3	0.5	-2.4	-8.7	-3.9
EE 27	0.3	-4.3	2.1	1.6	-0.3	-0.l	1.4
Euro Area	0.4	-4.4	2.0	1.4	-0.6	-0.4	1.2
USA	-0.3	-3.1	2.4	1.8	2.2	1.9	2.6
Japan	-1.0	-5.5	4.7	-0.6	2.0	1.4	1.6

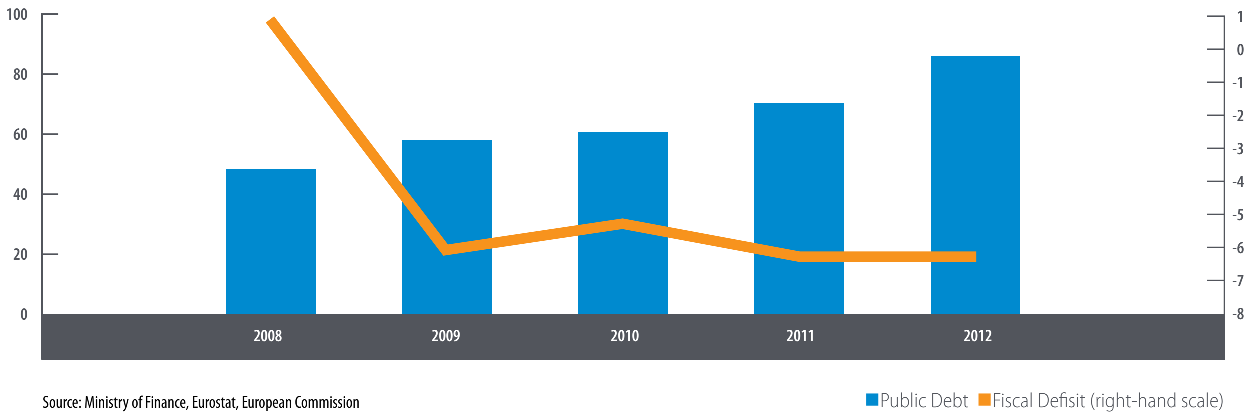
Source: Eurostat, European Commission Assessment of the public dept sustainability of Cyprus, April 2013

A notable outcome of the Eurogroup decision is that the tax system of Cyprus has remained fundamentally unchanged. The tax system of Cyprus, combined with its network of double tax treaties and its excellent infrastructure of professional service providers, is the cornerstone of Cyprus as a place for establishing a base from where to consolidate and manage international investments.

Real GDP growth rate

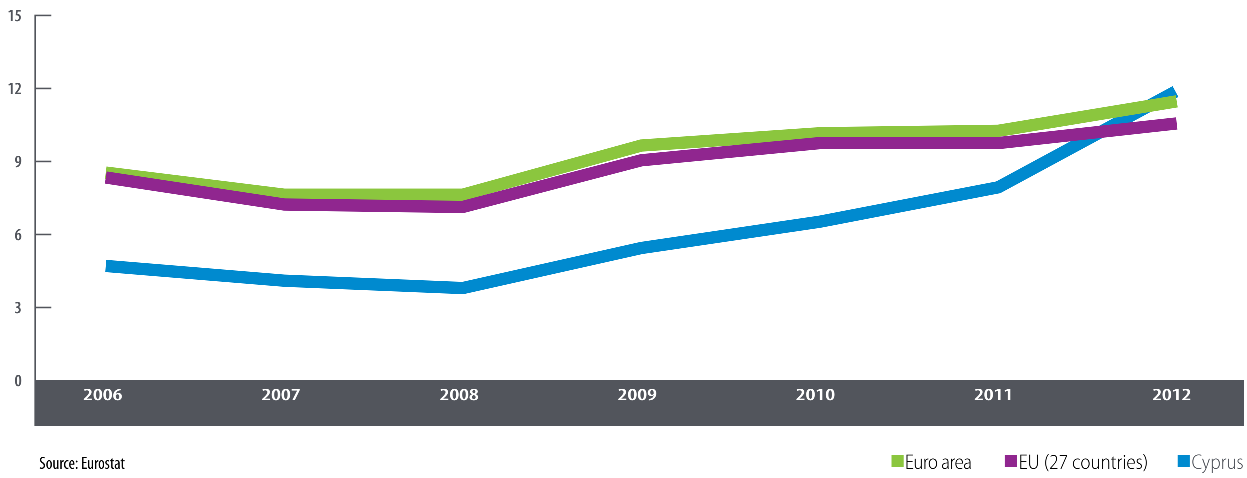


Public Debt & Fiscal Deficit (% of GDP)



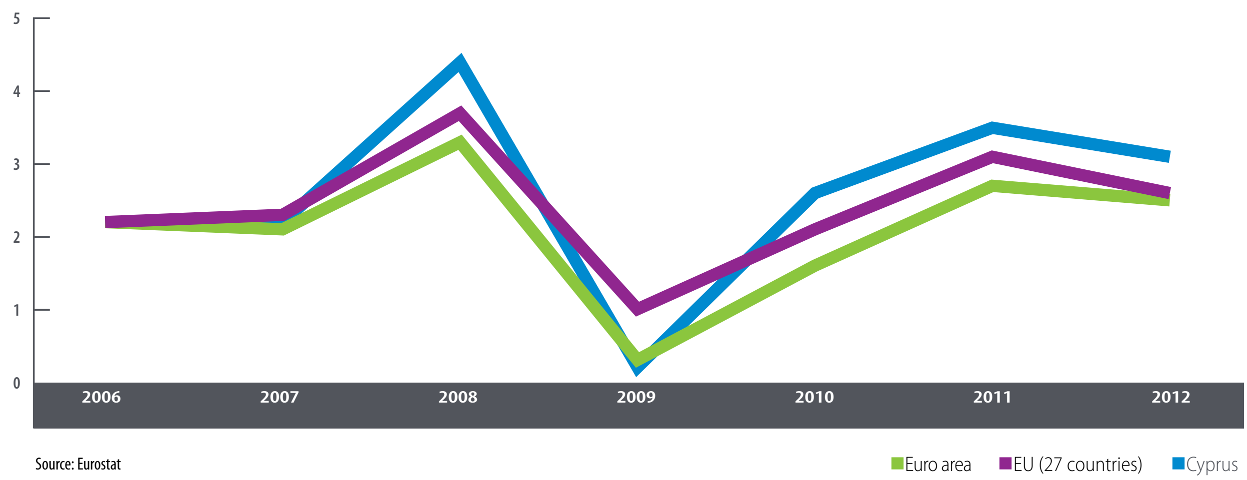
All benefits (tax, legal, regulatory) enjoyed by foreign-owned companies present in Cyprus remain unchanged, as the bailout agreement stipulates an incremental increase in the corporate tax rate (from 10% to 12.5%) and an increase to 30% of the Special Defence Contribution rates on interest from deposits paid to Cyprus residents (currently 15%). Such changes should not affect groups that structure their worldwide assets and financing transactions through Cyprus. As a result, Cyprus remains attractive as a holding company jurisdiction and this is expected to be improved even further as the government is committed towards immediately introducing new incentives to attract international investment and business in the country.

Unemployment in Cyprus, the Euro area & the EU27



Source: Eurostat

Inflation in Cyprus, the Euro area & the EU27



Source: Eurostat

Major Economic Indicators

CYPRUS MAJOR ECONOMIC INDICATORS		2009	2010	2011	2012	2013f
GDP (Real Growth)	% Change (1)	-1.9	1.3	0.5	-2.4	-8.7
GDP (At Current Prices)	EUR mil.	16,854	17,406	17,979	17,887	N/A
GDP Per Capita (EURO)		19,974	20,308	21,218	19,676	N/A
GDP Per Capita (PPS)	EU - 27 = 100	100	97	94	N/A	N/A
Unemployment	%	5.4	6.3	7.9	11.9	15.5
Inflation Rate	% Change (1)	0.2	2.6	3.5	3.1	1.0
Current Account Balance	% of GDP	-10.7	-9.2	-4.8	-4.8	-1.9
Fiscal Deficit	% of GDP	-6.1	-5.3	-6.3	-6.3	-6.5
Total Public Debt (2)	% of GDP	58.5	61.3	71.1	85.8	109.5
Total Public Debt (2)	EUR mil.	9,865	10,671	12,777	15,351	N/A

Source: Eurostat, Ministry of Finance, European Commission interim forecast

(1) Percentage change compared with the corresponding period of the previous year
(2) Excluding intergovernmental & short-term liabilities of the Central Bank to the IMF.

- **Doing Business 2013 (World Bank):** Cyprus is ranked 36th out of 185 economies.
- **Global Competitiveness Index 2012-2013 (World Economic Forum):** Cyprus is ranked 58th overall out of 144 countries.
- **Index of Economic Freedom World Rankings:** Cyprus is ranked 41st out of 177 countries.

Stock Market Developments

Collective Investment Schemes
The Cyprus Securities and Exchange Commission (CySEC) and the Cyprus Stock Exchange (CSE) aim to promote Cyprus as an investment fund jurisdiction. As part of their efforts, the following steps were implemented:

- The UCITS IV Directive was transposed into national legislation.
- CySEC has prepared a draft law to harmonize Cyprus with the Alternative Investment Fund Managers' Directive and a draft law to update the legal framework for the operation of non-UCITS. The draft laws and the accompanying regulations are in the consultation stage and will be forwarded to Parliament for voting in the coming months. Through these laws the CySEC becomes appointed regulator for all collective investment schemes (UCITS and non-UCITS).
- The CSE proceeded with the amendment of the relevant legislation in order to allow the opening of an Investor's Account under the control of a custodian which will be in the name of a bank or financial organization and will serve as omnibus account.

  This regulation is based on current practice in developed stock markets and is considered an important tool in the effort to attract international investors as well as the registration of funds.
- The CSE Council has decided to regulate the introduction of units in the Collective Investment Scheme Market and is now at the public consultation stage.

Energy sector
In view of recent developments with the ongoing authorization procedure regarding the licensing of plots of the Exclusive Economic Zone of Cyprus for the purpose of extracting hydrocarbons, the CSE is promoting the following suggestions to develop the energy sector in Cyprus via the securities market:

- The State Company for Hydrocarbons to be listed on the CSE. Similar arrangements have been implemented in Norway (StatOil). In this manner, part of the share capital can be offered to domestic and international investors, both institutional and private, to raise funds for further investments in the sector.
- In the agreements to be signed between the Republic and the drilling companies that will finally be selected for each plot of the Exclusive Economic Zone, a clause may be introduced requiring the issue of securities in the form of certificates representing shares (Depository Receipts) and their admission to the CSE.

  It is noted that similar arrangements took place in Israel where the energy sector has contributed significantly to the further development of the securities market in the country, attracting international investors. In turn, this has strengthened further the companies in the energy sector.

  In addition, the implementation of the above suggestions will help attract international investment funds to Cyprus that specialize in the energy sector, and will give an impetus for the development of energy-related stock indices and related derivative products, such as Futures, Options, ETF's etc.

Improvements in the CSE infrastructure

- The Settlement System of the CSE from December 2012 has started the settlement of the CSE Market in euro through the Target 2 Single Shared Platform Payments of the Eurosystem. This transition and the related institutional adjustments the CSE has introduced, enhance the operations of the CSE Depository and improve the clearance and settlement of securities, as the monetary settlement for securities will run in central bank money in the Ancillary System – AS of the Target 2 SSP Payments.

- The CSE has been designated as Officially Appointed Mechanism for the Storage of Regulated Information, known as OAM. OAM is an electronic system for the release of announcements (Regulated Information) issued by the listed issuers, the CSE Members, the Nominated Advisors, the Cyprus Stock Exchange and other market participants. The OAM system was officially launched in October 2012 and it will achieve the update of the announcements process, as stipulated by the Market Standards for Corporate Actions which are promoted by the European Commission.

Additional products and services in Cyprus's capital market

- CySEC has included Financial Binary Options in the list of investment products that are regulated under local MiFID legislation. It has authorized specific companies to provide investment services in binary options. Binary options are types of options where the payoff is either some fixed amount (if the option expires in the money) or nothing at all. Thus, the options are binary in nature because there are only two possible outcomes.

- The CSE Council has issued Regulatory Decisions concerning the operations of Global Depository Receipts (GDR's). These certificates represent ownership of a stake in a company and are traded in US dollars and euro. Instead of listing the securities of a company on a stock exchange, part of them are deposited to a custodian (Depository) who in turn undertakes to issue and list for trading in the stock exchange the "evidence", that is the Depository Receipts of this deposit. GDRs are directed to specialized financial institutions and provide advantages for investors and issuers, such as the low cost of listing, trading and settlement. Depository Receipts can be introduced in the Regulated and Non-Regulated Market of CSE.

- The CSE has been appointed by the Ministry of Agriculture, Natural Resources and Environment as Auctioneer on behalf of the Republic, of the Greenhouse Gas Emission Rights. The products that will be auctioned, pursuant to the Directive 2003/87/EC of the European Parliament and the Council are the General Rights - EUAs and the Aviation Rights (EUAAs). The first auctions for the emission rights took place in November 2012.

- The CSE has been appointed as the official national representative by the ANNA Organization (Association of National Numbering Agencies) for the issuance of ISIN and CFI Codes. The ISIN Code (International Securities Identification Number) is a unique number that is assigned to each security and it represents its identity in order to be traded on Stock Exchanges. The CFI Code (Classification of Financial Instruments) is the international standard which defines, describes and classifies the various financial products.

- The CSE has assumed the role of a Local Registration Authority (LRA) of an authorized Certification Service Provider and it therefore facilitates the issuance of Qualified Digital Certificates and the delivery of Secure Signature Creation Devices to any natural person. This allows the creation of an advanced electronic signature which is legally equivalent to a handwritten signature.

3 The Banking Sector

General Overview

In April 2013, following months of negotiations, the Cypriot authorities reached a staff level agreement on an economic program that will be supported by the IMF jointly with the European Commission and the European Central Bank. As a precursor to this agreement, a decision was taken by the Eurogroup that resulted in a substantial reduction in the size of the banking system in relation to the economy as well as in the resolution of the second largest bank in Cyprus and the restructuring and recapitalization of the largest bank in Cyprus.

Unlike the decisions on Ireland, Greece and Spain, the EU will provide no support for the recapitalization of the two banks, hence the impact on depositors of the two banks. As part of the agreement, insured depositors (representing over 95% of the total number of account-holders in the two affected banks) have been fully protected. The Parliament has adopted legislation establishing the framework for the recovery and resolution of credit institutions drawing on the relevant proposal of the European Commission. Under the terms of that legislation, the Central Bank of Cyprus became the single resolution authority for banks and cooperative credit institutions. Using this new framework, Laiki Bank was resolved into a good bank and a bad bank, and the good bank encompassing the operations, performing loans, other assets and the insured depositors was acquired by the Bank of Cyprus. Following this, the Bank of Cyprus is to be restructured and fully capitalised by bailing-in a portion of unsecured deposits. Additionally, the Greek subsidiaries of Cyprus banks were sold to Piraeus Bank of Greece. As a result of these actions, the Bank of Cyprus becomes fully recapitalized and regains its eligible counterparty status for participating in regular Eurosystem monetary policy operations.

The minimum core tier 1 capital ratio will increase from the present level of 8% to 9% by 31 December 2013. Funds from the economic assistance programme (in accordance with state aid rules) will be used to recapitalize any other financial institution deemed viable, which has a capital shortfall. With regards to Co-operative Credit Institutions, the agreement stipulates that each Co-op will be evaluated to determine its viability and Co-ops will undergo mergers as necessary in order to meet the minimum criteria.

In order to alleviate the pressure on bank liquidity while the restructuring of the sector takes place, exceptional measures were necessary in order to prevent large deposit outflows. Cash withdrawals, electronic payments and transfers abroad were temporarily restricted. The implementation of these measures was designed to minimize any disruptions in the payment systems and to ensure the execution of transactions essential for the functioning of the economy. The impact of the restrictions is monitored on a daily basis. According to the agreement with the Troika, these restrictions will be gradually relaxed and will remain in place no longer than strictly necessary to mitigate serious risks for the stability of the domestic financial system.

The European Central Bank announced on the 2nd of May, 2013 that it would start accepting debt issued by Cyprus in exchange for credit, following the bailout deal struck with international lenders. According to the ECB, "marketable debt instruments issued or fully guaranteed by the Republic of Cyprus and fulfilling all other eligibility criteria shall again constitute eligible collateral for the purposes of Eurosystem credit operations, subject to special haircuts." The decision came into force with the relevant legal act on 9 May 2013.

Cyprus received its first emergency aid payment on the 13th of May, 2013 following a decision of the European Stability Mechanism. The island received 2 billion euros and will get as much as 1 billion euros more in June 2013 as the Mediterranean island's 10 billion-euro aid package becomes activated.

Commercial Banking & Key Figures

The banking sector is comprised of two tiers: (a) locally active commercial banks, subsidiaries and branches of foreign banks which are supervised by the Central Bank of Cyprus (CBC) and (b) Co-operative Credit Institutions which are supervised by the Co-Operative Credit Societies' Supervision and Development Authority.

Since the adoption of the Euro on 1st January 2008, one of the primary roles of the CBC is the supervision of the Banking System and the maintenance of financial stability. In its supervisory role, the Central Bank of Cyprus has always been guided by the recommendations of the Basel Committee on Banking Supervision and implements the EU Directives on banking regulation. Additionally, the CBC monitors new developments and accordingly reviews and amends its policies.

Following the agreement for an economic adjustment programme between the Cypriot government and the European Commission, the European Central Bank and the International Monetary Fund (the "Troika"), the Co-operative Credit Societies will come under the supervision of the CBC as from July 2013.

The domestic banking sector, including the cooperative credit institutions, represented until 2012, 550% of the country's GDP. Following the decision reached by the Eurogroup on the 25th of March, the country's two major banks (Laiki Bank and Bank of Cyprus) are going through restructuring aiming at bringing the size of the banking sector as a percentage of the country's GDP to the EU average by 2018. All the other banks operating in Cyprus were not affected by this decision.

BANKING SECTOR – STATISTICS (31/12/12)	Banks	Coops
Deposits (€ million)	54,037	16,119
Loans (€ million)	57,142	15,324
Branches	431	417
Personnel	10,131	2,684
Branches per 100,000 inhabitants	56	52

Source: Central Bank of Cyprus, Co-operative Credit Societies' Supervision and Development Authority

As can be seen from the table above, banks dominate the domestic financial system, holding a 79% share of loans and a 77% share of deposits. The number of bank personnel has declined by 2% and the number of bank branches has declined by 6% in 2012. This trend is expected to continue as the two largest banks restructure following the decision of the Eurogroup and the signing of the economic adjustment programme with the troika.

Despite the short-term pains of adjusting to a stricter framework of fiscal discipline and stronger supervision, the economic adjustment programme creates an even more robust banking sector, it ensures that the public debt will be sustainable and gives the opportunity to international investors to reaffirm their presence in a financially healthier Cyprus in the years to come.

It is the Central Bank of Cyprus's view that the rescue plan would turn Bank of Cyprus, the biggest lender in the country that is going through a restructuring process, into "one of the best capitalized in the world."

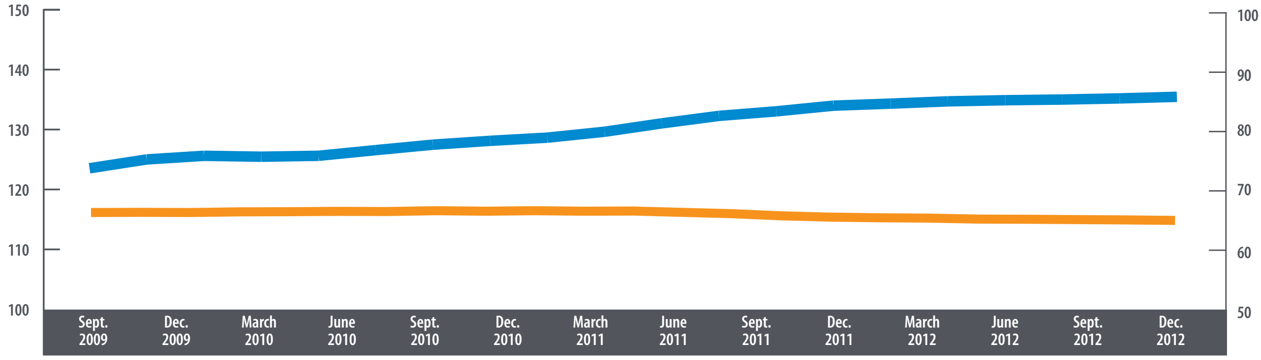
CYPRUS BANKING STRUCTURE
NUMBER OF BRANCHES, EMPLOYEES & ATM

AGGREGATED DATA 2011 & 2012

	Banks	Branches	Employees	ATM
2011	12	429	9,372	449
2012	12	384	9,273	423

Source: ACB's regular member banks

Household debt as a % of GDP



Source: CBC

Cyprus Euro area (right-hand scale)

Financial Intermediation

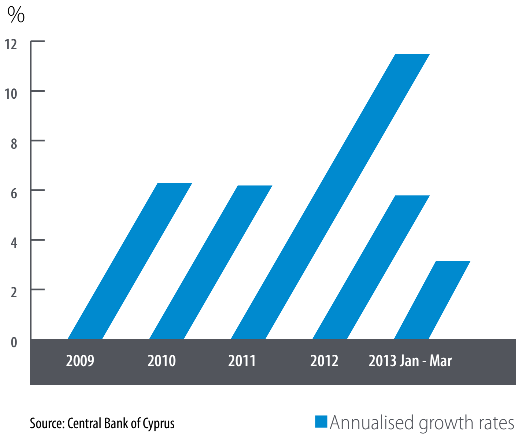
In 2012, deposits held with all monetary financial institutions remained stable with a small increase of 1.2% (2011: 0.9% decline) while the deposits of foreign residents have increased by 5.1%. In the first three months of 2013 deposits declined by a rate of 9.9% compared to the first three months of 2012.

During 2012, credit expansion (total lending to Cyprus residents, other EU residents and non-EU residents) increased to 5.8% from 11.5% in 2011. Although a significant portion of this can be attributed to loan restructurings the data show that the banking sector in Cyprus continues to provide funding to the economy.

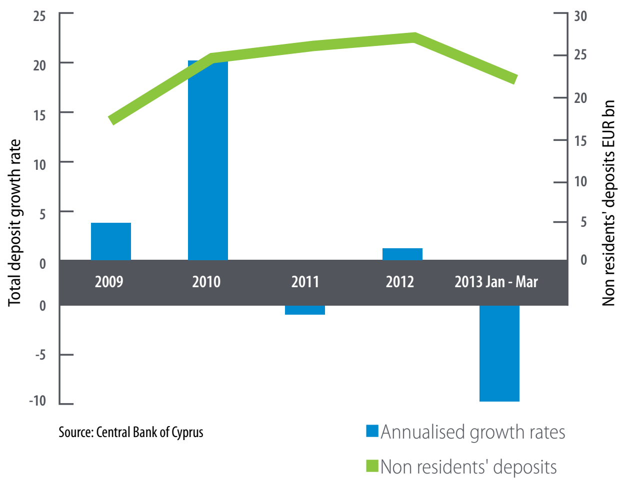
Latest data from the Central Bank of Cyprus show that annualized credit expansion was 3.7% during the first three months of 2013.

According to the Bank Lending Survey carried out by the Central Bank of Cyprus, the demand for loans by both households and enterprises is declining. Specifically, the decline in demand for the fourth quarter of 2012 exceeded the decline registered in the previous quarter and this fall in demand was larger than anticipated by the participating banks. The demand by both households and enterprises is expected to further contract in the first quarter of 2013. As far as loan supply is concerned, the Survey concludes that credit standards for enterprise loans were tightened significantly during the fourth quarter of 2012 and are expected to tighten further in the first quarter of 2013, albeit to a lesser extent. The tightening of credit standards for consumer loans during the last quarter of 2012 was the same as in the previous quarter and they are expected to be further tightened to the same extent during the first quarter of 2013. The supply and demand conditions for loans mirrors the conditions in the rest of the euro area.

Loans by Monetary Financial Institutions



Deposits held with Monetary Financial Institutions



Bank Credit by Sector

As the table below shows, consumer purchase and housing loans had a modest decrease (-0.7% and -1.5% respectively) during 2012. Lending to enterprises has increased by 6.7%.

	End of period balances €million		Outstanding amount as a % of total		Annual % change
	2011	2012	2011	2012	2011
General Government	1,110	1,603	1.6%	2.2%	44.4%
Other financial intermediaries	9,144	9,603	13.3%	13.3%	5.0%
Insurance corporations & pension funds	87	1,121	0.1%	1.5%	1188.5%
Non-financial corporations	31,112	33,197	45.4%	45.8%	6.7%
Consumer credit	3,482	3,459	5.1%	4.8%	-0.7%
Housing loans	15,139	14,906	22.1%	20.6%	-1.5%
Other household loans	8,447	8,579	12.3%	11.8%	1.6%
Totals	**68,521**	**72,468**			**5.8%**

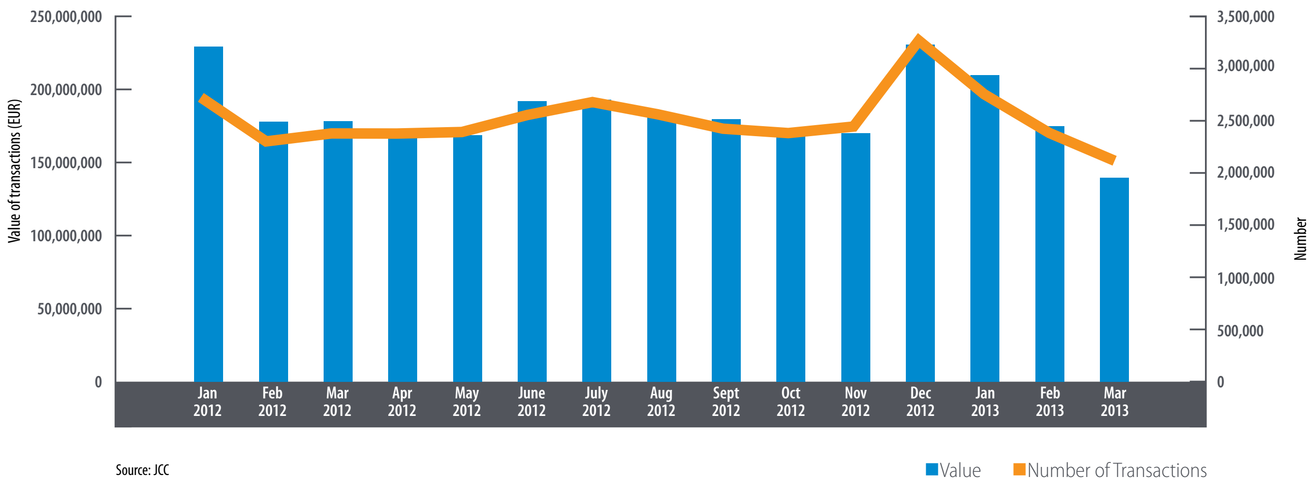
Source: Central Bank of Cyprus

Credit and Debit Card Transactions

During 2012, the total value of card purchases in Cyprus by holders of credit and debit cards issued in Cyprus grew by 3% to a total of €2.27 billion (2011: €2.20 billion). Within the year, the total number of transactions increased by 6%, while the average value of transactions was €72 per transaction (2011: €74). However, during the first quarter of 2013 the total value of transactions decreased by 10% compared to the first quarter of 2012 and the monthly decline was especially marked in March 2013 (22%).

During 2012, Cypriot card-holders spent abroad a total of €1.40 billion using Cyprus issued cards (including both purchases and cash withdrawals) (2011: €1.29 billion).

Card transactions



Source: JCC

4 Year under review

Bank resolution, bail-in and the Cyprus experience

The financial crisis prevailing in Europe and the difficulties faced by the European Union (EU) in addressing the problems in the banking sector have exposed critical gaps in the stability of the architecture of the Euro Zone. Recognizing this, the EU authorities are putting in place comprehensive policy measures to rectify the situation. One of the top priorities is the creation of a Banking Union which aims to weaken the link between debt-burdened governments and troubled banks. The Banking Union consists of three pillars: the Bank Recovery & Resolution Framework, the Single Supervisory Mechanism (including CRDIV) and the Single Deposit Guarantee/Resolution Fund.

Until today, many Euro Zone countries have relied on general corporate insolvency proceedings to deal with bank failures, resulting in lengthy wind-ups and significant costs for the economy. The Bank Recovery & Resolution Directive (BRRD) seeks to ensure that national authorities have strong preventative powers to deal with banks in difficulty, especially in the "prevention", "early intervention" and "resolution" stages.

In the prevention stage, resolution authorities require banks to draw up recovery plans (dealing with a deteriorating financial situation), to prepare resolution plans (ensuring the continuity of critical functions), and to remove obstacles to resolvability that threaten financial stability. In the early intervention stage, resolution authorities require banks to implement measures set out in the recovery plan, to remove or replace Members of the Board of Directors or Managing Directors, to draw up a plan for the restructuring of debt and to appoint a Special Manager for a limited period so as to restore the financial situation and the prudent management of the bank.

In the resolution stage, when the bank is failing or likely to fail, resolution authorities intervene in order to ensure the continuity of the critical functions of the bank, the avoidance of adverse effects on financial stability, and the protection of public funds and depositors covered by the Deposit Guarantee Scheme (DGS). Resolution authorities can use any one or more of the following resolution tools: sale of business, bridge bank, asset separation and bail-in. The most important aspect of the four resolution tools is that shareholders bear first losses, creditors (including unsecured depositors) bear losses after the shareholders in accordance with the order of priority of their claims, senior management is replaced, and no creditor incurs greater losses that would be incurred if the bank would have been wound down under normal insolvency proceedings.

The sale of business tool enables resolution authorities to sell all or part of the failing bank to another bank, including shares, assets, rights or liabilities. The bridge institution tool enables resolution authorities to transfer all or specified assets, rights or liabilities of the failing bank to a bridge bank for the purpose of carrying out some of the critical functions. The bridge bank should eventually be sold when conditions are appropriate and within a specified period of time. The asset separation tool enables resolution authorities to transfer assets, rights or liabilities to an asset management vehicle. The assets transferred shall be managed with a view to maximize their value through eventual sale.

Lastly, the bail-in tool enables resolution authorities to recapitalize a failing bank (without the need for bail-out by public funds) and wind-down parts of its business in an orderly manner. As a result of recapitalization (conversion to equity or reduction of the principle amount of debt) shareholders are wiped out or diluted and creditors have their claims reduced or converted to shares.

Even though the BRRD is not expected to be officially introduced until June 2013 (and become applicable on 2018), some of the resolution tools have been used in the case of Cyprus. In July 2012 the Cypriot government requested financial assistance from the troika (IMF, EC, ECB) to address public sector imbalances and the recapitalization of specific Cypriot banks. It is important to point out that the bank recapitalization needs originated after the October 2011 EU political decision to apply a haircut on Greek Government Bonds. The haircut wiped out €4.5 billion from the capital of the three largest Cypriot banks. Despite the loss caused by that decision, the troika insisted that the €5.8 billion required for the recapitalization of the two banks would be extracted from private sources (bail-in). Failure to do so would result in the ECB immediately cutting off access to the Emergency Liquidity Assistance (ELA) funding for the two banks, with fatal implications to the Cypriot banking system.

Therefore, the Eurogroup decided on 15 March 2013 to impose across-the-board haircuts on secured and unsecured deposits of both ailing and healthy banks. When the Cypriot Parliament rejected this proposal, the Eurogroup reached a second and harsher decision on 25 March 2013. This included the resolution of the second largest bank in Cyprus (Popular Bank) and the imposition of severe haircuts on unsecured deposits of the largest bank in Cyprus (Bank of Cyprus). In the case of Popular Bank the resolution entailed the full contribution of equity shareholders, bond holders (subordinated and senior) and unsecured depositors. Additionally, Popular Bank was split into a good bank (incorporating all secured deposits) and a bad bank, with the good bank being absorbed by the Bank of Cyprus.

In the case of Bank of Cyprus the resolution entailed the full contribution of equity shareholders, bond holders and the bail-in of up to 60% on unsecured deposits (37.5% converted into shares with full voting rights and access to future dividend payments and a further 22.5% temporarily withheld to ensure the bank meets the terms of its recapitalization). A portion of the remaining 40% that was not subject to the bail-in will be temporarily frozen to ensure the bank's liquidity. In both cases, the banks' shareholders were wiped out first, followed by junior and senior debt holders and all unsecured depositors.

The Cyprus bail-in rescue plan has upturned the traditional policies of dealing with financial crises in the Euro Zone, as was the way in Ireland, Spain, Greece and Portugal. The bail-in decision has caused the Cypriot banking sector to suffer a violent shrinkage and a shock to its operational ability to serve customers and the economy. The negative impact of the sudden decline in GDP cannot yet be estimated, but is expected to be sizable and long term. Additionally, there are bound to be implications for the rest of Europe as well. Despite statements by European officials, Cyprus may be the template for the future. If any Euro Zone country runs into financial problems and cannot afford to recapitalize local banks, it will have to "bail-in" their shareholders, creditors and unsecured depositors. This will undermine concerted efforts to deal with future financial crises, encouraging capital flight from weak countries and leading to more instability.

Michael Kronides
First Senior Officer

The fiscal dimension of the Memorandum

Following a financial aid request from the Cypriot government, in April 2013, the key elements of an economic adjustment programme (Memorandum of Understanding) were agreed between the Cypriot authorities and the European Commission, the European Central Bank and the International Monetary Fund (the troika). The financial assistance package towards which all three institutions shall contribute, amounts to €10 billion, to be disbursed from May 2013 until May 2016. The loan will have a duration of 22 years with repayments due to start ten years from signing the agreement, and the interest rate is expected to be around 2.5%.

The key programme objectives are to restore the soundness of the banking sector, to continue fiscal consolidation and to implement structural reforms aimed at enhancing competitiveness. With respect to the fiscal objectives, the programme aims to correct the excessive general government deficit in particular through measures to reduce expenditure. The programme also plans to impose measures to increase the efficiency of public spending through a medium-term budgetary framework, to enhance revenue collection and improve the functioning of the public sector.

According to the programme, Cypriot authorities will continue the process of fiscal consolidation in order to achieve a 3% of GDP primary surplus in 2017 and maintain a 4% primary surplus in 2018 and thereafter. It is noted that the Cypriot government has already adopted a number of fiscal measures amounting to consolidation measures of about 5% of GDP for 2012-2014. These measures were based on the recommendations stipulated in the provisional staff level agreement reached in November 2012 between Cyprus and the programme partners. In addition to these measures, the programme stipulates the adoption, as from 2013, of additional measures of a permanent nature that account for 2.1% of GDP. The period to implement the measures under the bailout programme is until 2018.

The additional measures that relate to an increase of revenue include:

- Increase of the statutory corporate income tax rate to 12.5% (from 10%).
- Increase of the tax rate on interest income to 30%.
- Increase property tax.
- Increase the bank levy on deposits from 0.11% to 0.15% with 25/60 of the revenue earmarked for a Financial Stability Fund.
- Increase in fees for public services.

The measures that relate to a reduction of expenditure are:

- Reduction of expenditure on housing schemes.
- Reduction of Easter allowance to pensioners.
- Reduction in emoluments of public sector pensioners and employees.
- Reduction of the number of teachers.
- Measures to control healthcare costs.

The efficacy of these measures will be assessed periodically and the Cypriot government will take additional measures in case the programme objectives are not being met.

As part of the agreement, the government will implement further reforms of the pension system of civil servants which include increases of the statutory retirement age, taxation of pension entitlements and caps on total annual public pension benefits.

With regards to healthcare, the agreement significantly reduces the number of beneficiaries of free public health care. Public sector employees and pensioners will pay a contribution to have access to health care while the fees will increase for non-beneficiaries.

In order to improve the efficiency of public spending, the budgetary process will be implemented through a Medium-Term Budgetary Framework that complies with the relevant Directive.

The programme provides for the revision of the process for tendering public private partnerships (PPPs) and for the implementation of a legal and institutional framework for PPPs based on best practices. The governance of state owned enterprises is to be strengthened and a privatization plan will be developed based on a review of the operations and assets of state-owned enterprises (including electricity, telecommunications, ports authority and real estate assets).

Cypriot authorities shall implement reforms to improve the effectiveness and efficiency of tax collection and administration. The reforms will build on the recommendations derived from the diagnostic technical assistance mission conducted by the IMF in February 2013 and on recommendations put forward in the in-depth review of Cyprus' legal and regulatory framework under the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.

Working hours in the public sector will be modified so as to extend operating hours and reduce the need for overtime, and staff mobility will be introduced. An external review will be commissioned for further reforms of the public administration to improve its functioning and cost-effectiveness by providing recommendations for restructuring departments and revising employment conditions. Furthermore, the wage indexation system for the public and private sector will be reformed in order to ensure that wage growth better reflects productivity.

The welfare system will be reformed to better target social transfers and ensure efficient use of public funds, while ensuring an appropriate balance between welfare assistance and incentives to take up work.

The reforms are aimed at ensuring the long-term sustainability of public finances and at supporting the recovery of economic activity.

Christina Antoniou Pierides
Senior Officer

Anti Money laundering Regulation In Cyprus

1. **Regulatory Framework**

   Cyprus has implemented a comprehensive framework to combat money laundering and terrorist financing ('AML'). The appropriate mechanisms for the prevention and suppression of money laundering and terrorist financing activities have been implemented in Cyprus through effective regulatory frameworks based on European Directives and relevant international standards. The Law defines and criminalises the laundering of the proceeds generated from all serious criminal offences and provides for the confiscation of such proceeds aiming at depriving criminals of their profits.

2. **Evaluations**

   A. MONEYVAL

   Cyprus's anti-money laundering system has continually been evaluated by the experts of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval). The evaluation was based on a detailed methodology developed jointly by the International Monetary Fund and the FATF and on the FATF 40+9 Recommendations.

   In the latest 2011 evaluation, Cyprus was highly commended for the comprehensive and sound manner in which it took measures for combating money laundering and financing of terrorism in accordance with the prevailing international standards and was congratulated for the very comprehensive legal framework put in place.

   It is important to note that the ratings assigned to Cyprus compare favourably with the corresponding ratings of other member countries of the FATF and the European Union. With regards to 49 recommendations of the intergovernmental Financial Action Task Force on money laundering, Cyprus ranks seventh out of the 17 euro-area states in terms of the number of measures it fully complies with, according to the latest Moneyval evaluation.

   Some of the main Moneyval comments are listed below:

   - Cyprus has effectively addressed most of the issues raised in the previous evaluation.
   - The financial sector shows a higher degree of awareness of its responsibilities. Cyprus's regime to combat money laundering and the financing of terrorism is compliant with the Financial Action Task Force standards. The number of convictions for money laundering has increased and helpful case law on freezing and confiscation has been established.
   - The Cyprus supervisory authorities of the financial sector have sufficient powers to supervise compliance and carry out inspections. Overall, the financial sector appears to be adequately monitored.
   - The legal framework for mutual legal assistance is sound and Cyprus generally responds to requests for assistance efficiently and effectively.

   B. Financial Action Task Force on Money Laundering (FATF)

   Reports by the FATF verified that Cyprus is a cooperative country against money laundering as well as having a comprehensive anti-money laundering system.

C. International Monetary Fund (IMF)

The IMF has in the past assessed Cyprus's banking supervisory and regulatory systems applied to the international banking and financial services sector, including its anti-money laundering system and concluded that the latter are in line with internationally accepted principles. The latest review contained positive comments about Cyprus's financial sector.

D. The Basel Institute on Governance

Cyprus is on a very good ranking position in the Basel AML Index regarding Money Laundering country risk according to the Basel Institute on Governance.

3. Recent Changes Regulatory Framework

During 2012, Cyprus implemented changes in its AML Regulatory Framework as follows:

- Inclusion of 'tax crimes' in the list of predicate offences for the purposes of the Prevention and Suppression of Money Laundering Activities Law ('AML Law') following the amendment of the Income Tax Law.
- Implementation of the Law Regarding the Regulation of Businesses Providing Fiduciary Services and Related Matters, for the general regulation of this sector by the Cyprus Securities and Exchange Commission. This general regulation shall include the regulation for money laundering purposes of Company Services/Fiduciaries Companies, thereby enhancing transparency. The AML Law has been modified in order to enhance the powers of the Cyprus Financial Intelligence Unit and strengthen its powers in international cooperation.
- The newly amended Cyprus International Trusts Law imposes on the Trustee of a Cyprus international trust obligations mirroring the obligations of entities regulated under the AML Law, enhancing in this way the integrity of Trustees in Cyprus international trusts and furthering the credibility of Cyprus international trusts as corporate vehicles.
- The recent enactment of the Cyprus Gambling Law has rendered any gambling being illegal under the latter law (ie online casino gambling), to be considered a predicate offence by virtue of the AML Law.

Following the Eurogroup decisions taken in March 2013, Cyprus has commissioned, on the basis of agreed terms of reference, an independent third party evaluation of the implementation of its Anti Money Laundering framework, by Moneyval of the Council of Europe and an independent firm (Deloitte Financial Advisory S.r.l) .

The said assessments have been completed and the final report has been submitted to the Eurogroup.

Elena Frixou
Senior Officer

SEPA migration end-date and IBAN

In March 2012, the European Parliament approved a new "Regulation (No 260/2012), establishing technical and business requirements for Credit Transfers and Direct Debits in Euro" (the "Regulation"). The Regulation contains a SEPA migration end-date for both Credit Transfers and Direct Debits, which is on 1 February, 2014. This means that SEPA migration becomes a mandatory project for all SEPA-zone countries. Full compliance with the provisions of the Regulation will lead to faster, safer and cheaper payments for all stakeholders, comprising retail and business customers, the public authorities and banks.

Apart from defining a specific end-date for SEPA migration, the Regulation also contains the following main provisions:

- It is applicable to all Credit Transfer and Direct Debit payments, but it does not apply to cash or cheque payments, mobile payments, card payments, money remittances, or large value payment systems such as Target2.

- All stakeholders must adjust their systems and infrastructure, so as to be able to comply with the technical requirements defined in the Regulation. These requirements include the use of the ISO 20022 XML standard, the exclusive use of IBAN instead of the domestic bank account number, the ability to effect rejects and reversals of Direct Debits, and the use of a new SEPA Direct Debits Mandate format.

- Equalization of cross-border and domestic charges for all types of payments is included in the Regulation, irrespective of the amount of payment. This provision amends a previous requirement contained in Regulation 924/2009 with defined a €50.000 ceiling for the equalization of cross-border and domestic charges.

  As stated above, the Regulation requires the exclusive use of IBAN instead of the domestic account number, for the processing of any Credit Transfer or Direct Debit payments within the SEPA zone. The "IBAN only" requirement is expected to be adopted by all participating countries for both domestic and cross-border payments, the latest by the 1st of February 2014.

  According to the guidelines provided by the European Commission and the European Central Bank, all stakeholders must take active measures in order to ensure a smooth and effective transition to IBAN.

These measures involve the following:

- Financial Institutions must ensure that their customers are able to easily locate the IBAN pertaining to their own accounts. This can be achieved by displaying it on the monthly account statements, or printing it on payment cards or cheque books. Banks should also provide their customers with easy-to-understand information about the uses of IBAN, either through their internet banking channels, or by print flyers.

- A national website dedicated to IBAN could be constructed, containing a range of IBAN-related information, as well as account number to IBAN conversion facilities.

- Businesses and public administrations are expected to review their invoicing and accounting procedures, identify and adapt all systems operating on the basis of account numbers and banking codes, redefine their standardised processes for cross-border payments so as to include any missing IBANs, and disclose their IBAN to their business partners and customers. This can be achieved by printing it on their invoices, stationary or any other documents exchanged with their counter-parties.

  Having all the above in mind, the Association of Cyprus Banks and its members have developed an IBAN designated category in the Association's website, which apart from giving general information about the uses and benefits of IBAN, also provides account conversion facilities for users. In particular, the section contains a portal with the website links of the Association's member banks where there are account number to IBAN conversion facilities for users. By using these services, senders of domestic electronic payments are able to identify the IBAN of their own accounts or their beneficiaries, without wasting time on communicating with them, or their banks.

Marios Nicolaou
Senior Officer

FATCA implementation in Cyprus

During the past year, Cypriot banks followed developments in the new requirements imposed by the US to banks outside the US, designed to identify US persons holding investments in offshore accounts to avoid their US tax obligations. Even though these requirements (known as FATCA) were not finalized by the US Treasury until January 2013, Cypriot banks have begun preparations to implement FATCA provisions much earlier.

Despite not having a significant number of US account holders in Cyprus, initial drafts of the FATCA Regulations made it clear that no country-wide exemptions would be given. Therefore, Cypriot banks decided to examine ways to implement FATCA requirements, since the alternative of non-cooperation would imply prohibitively high costs for banks and their clients in the form of withholding taxes imposed on all US income received.

Apart from the high cost of compliance and tight implementation deadlines, it soon became evident that the biggest obstacle to complying with FATCA was the incompatibility of its requirements with national and EU law pertaining to data protection and banking secrecy rules. A solution to this emerged with the announcement of the US and 5 EU countries to sign bilateral intergovernmental agreements (IGA), whereby the financial institutions themselves will not need to sign a direct agreement with the IRS and the exchange of information will take place on an automatic basis through the tax authorities. Members of the Association of Cyprus Banks have concluded that it would be advantageous for the financial sector in Cyprus to comply with FATCA through an IGA and have communicated their position to the Ministry of Finance as well as other stakeholders. Apart from overcoming issues relating to data protection, the signature of an IGA will also address another important issue for Cypriot financial institutions, given their presence in non-EU countries – most notably Russia. Under the final terms of FATCA regulations, a financial group that enters into an agreement directly with the IRS will still be considered non-compliant if it has related entities in jurisdictions where FATCA cannot be implemented. However, this issue does not arise if the financial institution is located in a jurisdiction which has entered an IGA, even if some affiliates of this institution are located in countries that are not FATCA-compliant. As such, it will allow entities with Russian subsidiaries or parent companies to be considered compliant, even in the case Russia decides not to enter into an agreement with the US on FATCA. The Ministry of Finance, taking into consideration the above, intends to sign an IGA and has informed US authorities of this intention. Given that Cyprus and the US already have a bilateral tax treaty that provides for exchange of information, the original intention was for Cyprus to enter into a FATCA IGA Model 1, same as that signed by the UK, (the "reciprocal version") whereby Cypriot FFI's will report to Cypriot Tax Authorities, rather than to the IRS, details on the identified US accounts and the US and Cyprus will exchange information about each other's taxpayers.

However, the US authorities have informed the Ministry of Finance that they have developed a revised intergovernmental agreement that provides for provisional reciprocity. This "provisional intergovernmental agreement" contains a commitment by the United States and Cyprus to establish prior to September 2015 that the necessary safeguards and infrastructure are in place to exchange data. This timeframe is used because the agreement does not require any information exchange to occur until September 2015. If the competent authorities are not able to establish that these safeguards and infrastructure are in place, the agreement will terminate on December 31, 2015. However, if Cyprus is satisfied that the United States has adequate safeguards and infrastructure in place, but additional time is needed for the United States to establish that Cyprus has adequate safeguards and infrastructure in place, the agreement can remain in effect, except that the U.S. obligation to exchange information under the agreement will be deferred until such time that the United States is satisfied that Cyprus has the safeguards and infrastructure in place. It is expected that the US will offer this type of agreement to a large number of other jurisdictions.

The Ministry of Finance is in the process of concluding the provisional agreement and will draft legislation to implement FATCA in Cyprus. The Association of Cyprus Banks has set up ad-hoc committees to address legal, compliance and implementation issues and has regular meetings with the Ministry of Finance official who handles FATCA implementation and represented the Cyprus Presidency in Council Working Party discussions on this matter. The legal committee of the Association advised the Ministry of Finance of the necessary changes in Cyprus's legal framework in order for banks to comply with the requirements stemming from a FATCA IGA without violating data protection laws and banking secrecy. Representatives of the Association held meetings with the Commissioner for Personal Data Protection and with representatives of the American Embassy to discuss possible solutions on data protection issues and information to the public regarding FATCA.

Based on the stringent criteria for FATCA exemptions in the final FATCA Regulations, it appears that none of the Association's members are likely to be included in the "deemed compliant" category. Therefore, our members have mobilized their project teams, and began preparation for the introduction of FATCA, working under the assumption of a timely conclusion of the Provisional IGA.

Christina Antoniou Pierides
Senior Officer

The Financial Ombudsman

The national legislation for the resolution of financial disputes was passed by the House of Parliament in 2010. According to the provisions of the legislation, financial disputes are resolved out-of-court in a friendly and impartial manner. The out-of-court procedure has been designed to facilitate consumer access to justice in such a way that consumers will benefit from the simple, fast and low-cost way of resolving disputes.

The Office of the Financial Ombudsman covers complaints against banks, insurance companies, investment companies, electronic money institutions and mutual fund companies. Co operative credit institutions have not been included in the scope of the national law and thus are not covered by this body.

The regulation provides for an initial opportunity to be given between the financial institution and the customer in order for the dispute to be resolved directly. In this sense, the customer must first file his/her complaint to the financial institution which should in turn respond within three months from the day of the submission of the complaint.

If the customer is not satisfied with the reply provided by the financial institution, he/she may submit the complaint to the office of the Financial Ombudsman within the next four months. In order to arrive at a fair outcome, the Ombudsman communicates with both parties to ask them if they wish to be bound by the decision and issues an amicable decision. The parties must reply in writing within two months whether they accept the decision or not. The Financial Ombudsman's decision is binding only if both parties have accepted it. If the outcome of the decision is in favour of the customer, the Ombudsman decides about the amount of the compensation which is paid by the financial institution. The financial compensation should not exceed the amount of €50,000.

According to the law, the office of the Financial Ombudsman is governed by the Board, which is composed by eight members – the Chairman, two Vice-Chairmen and five members. One of the five members is the representative of the banking sector in Cyprus – currently the Director General of the Association of Cyprus Banks.

The entity is funded as follows:

- By a standard annual contribution from each financial sector. The contributions are calculated according to a formula: 70% of the contribution of each sector towards GDP and 30% according to the number of complaints ruled to be against the financial service providers of that sector in the previous year.
- By a contribution of €20 which is paid by the customer for the complaint submitted.
- By a fee of €350 to be paid by the financial institution for each decision issued against it.

In September 2012, the Board of the Financial Ombudsman drafted a consultation document for the methodology of the annual contributions of each financial sector which participates in the scheme. Financial institutions were given the opportunity to provide their comments and views on the proposed draft by 12 October 2012. Following this, the consultation was finalised and in 2013, a Regulation concerning the methodology of the fixed annual contributions of the financial institutions was drafted.

At the moment, the Board of Directors is in the process of appointing the Financial Ombudsman. The appointment will apply for a period of five years with the possibility of re-appointment (for another five years) based on the discretion of the Board.

The Budget of the Financial Ombudsman for the year 2013 was submitted for approval to the House of Parliament in the beginning of 2013.

Maria Ioannou
Senior Officer

Limitation of Actions

On May 31st of 2012 the new Limitation of Actions Law entered into force, which defines the ordinary time limits to bring actions of the various classes of claims specified therein. After the expiration of the time limit, no action may be brought in court.

Under the new Law, the time begins to count as soon as the cause of action is concluded. According to the explanatory article 2 of the new Law, "cause of action" is determined as "all the facts that found the enforceable right in relation to the suit". One may draw parallels between this phrase and the "accrual of cause of action" under the Limitation of Actions Act 1980 of England. In fact English Law is the basis of Cypriot Law. So, in applying the new Law, the Cypriot Courts may seek guidance from English precedence.

The new Law provides a general time limit of ten years, after which no action may be brought, unless differently provided for under this or any other Law. The new Law also sets various different time limits in relation to contracts, civil wrongs, claims to estate and judicial decisions. Also, for each such category there exist different sub-categories. The Law also provides for the circumstances under which the limitation of actions period may be suspended, paused, interrupted and extended and includes sections on fraud, concealment of facts and error.

In relation to loans, the time of breach of the debtor, in the sense that the creditor first had the right to bring an action, is complicated. Under English case law, where a date is set for repayment of the loan, the cause of action will accrue on that date. If, instead, it is repayable on demand – and demand is a condition precedent to repayment - the cause of action will accrue when the demand has been made. So, when it comes to loans, each case will have to be considered on its individual facts and contractual terms. It is interesting to note that, under common law, where there is no date laid down for repayment, and repayment is not conditional on demand, the cause of action will accrue when the contract is made (Re Browns Estate (1893) 2 Ch 300 and Boot v Boot (1996) 72 P.& C.R. D30, CA). This common law principle is avoided in relation to such loans by virtue of article 7(3) of the new Law, according to which the time starts from the time a demand is made. However, overdrafts are not covered under article 7(3) of the new Law, but under article 8(c). This may mean that the common law principle may be applied, so that the limitation period in respect of a claim for repayment of an overdraft may commence from the date on which the overdraft was granted. Of course, in Paget's Law of Banking, 13th Edition (2007), p. 155, it is recorded that "in modern baking practice, overdrafts are treated as repayable on demand, and it is thought that Parr's case does not represent the law today."

In any event, for the avoidance of any doubt it is suggested that the new Law is amended, so that overdrafts are specifically repayable on demand and the cause of action accrues on the date on which the demand was made.

Article	Class	Limitation of Action Period
5(1)	Mortgage and pledge	12 years from the completion of the cause of action
6(1)	Civil wrong	6 years from the completion of the cause of action
6(2)	Negligence, Nuisance, breach of duty	3 years from (a) the completion of the cause of action; or (b) the date of knowledge (if later) of the person injured
6(4)	Defamation or malicious falsehood	1 year from the completion of the cause of action
7(1)	Contracts	6 years from the completion of the cause of action
7(2)	Contracts for the payment of advocate, doctor, dentist, architect, civil engineer, building constructor or other independent professional	3 years from the completion of the cause of action
7(3)	A loan which — (a) does not provide for repayment of the debt on or before a fixed or determinable date; and (b) does make the obligation to repay the debt conditional on a demand for repayment made by or on behalf of the creditor.	6 years from which the demand was made
8(a)	Book Debt due to a bank	6 years from the completion of the cause of action
8(b)	Bill of Exchange, cheque, bond in customary form	6 years from the completion of the cause of action
8(c)	Any debt due to or form a bank or other person offering financing and derives from hire purchase, leasing, factoring, credit cards, overdrafts and any other similar banking product, except loans.	6 years from the completion of the cause of action
9(1) and 9(2)	Claims to estate	8 years from (a) the death or (b) if the claimantb was absent, one year of the date of knowledge (if later) of the claimant
10	Judgment	15 years from the date in which judgment became enforceable

Dr. Demetra Valianti Plati
Senior Officer

Upgrading of "Artemis" by the World Bank

The third year of operation of Artemis Bank Information Systems Ltd (Artemis), subsidiary of ACB, was marked by a series of important developments for the company which contribute towards its establishment as the first fully-fledged, Credit Bureau in Cyprus.

The most important development was the positive shift, by two points, in the "Getting Credit - Depth of credit information" index, achieved due to the recognition of Artemis as a Private Credit Bureau by the World Bank. The specific indicator is part of the "Doing Business 2013" report of the World Bank. This development is seen as particularly important, since a positive change in this index is interpreted as effective provision of credit, reduction of the credit risk and increase in the competitiveness of the Cypriot economy.

Another important development within 2012 was the attainment of the international certification ISO 27001:2005 for the Information Security Management System (ISMS). This is in line with the importance placed by the company to the confidentiality, integrity and availability of information it gathers, processes and disseminates. The ISMS is interconnected with the quality management system which is based on the international standard ISO 9001:2008 that Artemis possesses since 2010. The success of Artemis in attaining this certification can be seen by the fact that few companies or departments in Cyprus are now certified to the standard ISO 27001:2005, due to increased demands on its application.

The third significant development was the transition to a new, upgraded system for data exchange on economic behaviour. The new system was developed entirely by JCC Payment Systems Ltd (JCC) and is customized to Artemis' needs. The new system is simplified and more user-friendly while providing more information on the physical or legal person for whom the search in the Database is performed. Artemis implements enhancements to the System which include the addition of new data types, in line with the strategic plan of the company.

The continuous efforts of Artemis to upgrade its services are recognized by the banks which are the recipients of the company's data. As a solid proof, the 2012 satisfaction survey of the Liaison Officers of banks cooperating with Artemis revealed a high satisfaction rate among banks, particularly in the area of service quality.

At the same time, a number of other projects and initiatives that aim to strengthen the role of Artemis in safeguarding commercial credit, mitigating credit risk and promoting the reliability of transactions, are currently underway. In the long-run, the operation of Artemis will contribute to the full enhancement, modernization and evolution of the local banking system which, in turn, will continue to support the smooth functioning of the Cyprus economy, which is exactly what is required for Cyprus in the challenging times caused by the financial crisis.

Meeting of the Executive Committee of the EBF in Cyprus

On September 14 2012, the Association of Cyprus Banks hosted the 268th meeting of the Executive Committee of the European Banking Federation in Limassol. In the meeting participated General Managers and Directors of Bank Associations from 24 countries of the European Economic Area. Among other topics, the participants discussed issues such as the Banking Union, CRD IV, FATCA, MiFID, the EU Crisis Management Framework. On behalf of the Cypriot Ministry of Finance, Mr. Andreas Trokkos presented the priorities of the Cypriot presidency of the European Union relevant to the banking sector and replied to questions from members of the Executive Committee of the EBF.

ACB's Training Activities

Despite the challenging conditions of the previous year, the Association of Cyprus Banks continued to organize training seminars for bank employees. Due to significant reductions in the training budgets of member banks, the seminars were focused on current and basic subjects for which there was demand from the member banks.

Member banks were primarily concerned with training in issues of security and physical protection. Since the beginning of 2013, ACB jointly organizes these seminars with the Cyprus Bankers Employers' Association. Four seminars were conducted in Nicosia covering security against armed robberies, while more seminars are planned this year to cover the needs of participants from Larnaca, Limassol, Famagusta and Pafos.

Also popular with our members was the seminar on forced sales that was carried out by the Land Registry department. The seminar covered the existing legal framework and Land Registry practices on foreclosures.

Publications

The Association of Cyprus Banks publishes the monthly Newsletter and the biannual Cyprus Banking Insight. The Newsletter is addressed only to member banks and aims to inform and update the reader about the Association's main activities, the Director General and the Senior Officers' meetings with various authorities concerning the discussion of matters relating to the banking sector, the European Banking Federation meetings that the Director General and the Senior Officers participate, and the meetings of the Association's different Committees.

The Cyprus Banking Insight is a specialized publication addressed to member banks as well as other individuals or organizations that are interested in current issues relating to the banking sector, both local and overseas. The Cyprus Banking Insight is sent to all member banks, the Governor and Senior Officers of the Central Bank of Cyprus, the Ministry of Finance and members of various Committees of the House of Representatives. Every issue of the Cyprus Banking Insight contains articles provided by the Association's Senior Officers, member banks and guest contributors from the greater financial sector.

Cyprus Bankers Employers' Association (CBEA)

Introduction of Provident Funds

Early in 2012, the CBEA and its member banks started the process of implementing the provisions of the collective agreement which was signed at the end of 2011. One of the major provisions of that agreement was the replacement of the retirement benefit scheme, which applied until 31.12.2011, with the introduction of a provident fund characterized by monthly contributions by both employers and employees. To assist with this transition, the CBEA organized a number of meetings of its member banks that mostly dealt with the modifications necessary to align the articles of association of provident funds to the collective agreement and the relevant legislation. The arduous transition process took place throughout the year and was successfully completed since most, if not all members, have submitted the modified articles of association to the Registrar of Occupational Retirement Benefit Funds for approval and started the operations of the provident funds under newly appointed management committees that were directly elected by bank employees.

43rd EBF-BCESA Meeting

The CBEA hosted the 43rd European Banking Federation – Banking Committee for European Social Affairs (EBF-BCESA) meeting in the Amathus Beach Hotel in Limassol on 6 July 2012. The meeting was hosted on the occasion of the first Cyprus Presidency of the Council of the European Union and dealt with social affairs issues, especially the state of the social dialogue in the banking sector at a European level. Moreover, a senior officer of the Cypriot Ministry of Labour and Social Insurance presented the priorities of the Cypriot Presidency and the CBEA presented the state of social affairs in Cyprus.

Physical Security Measures of Bank Branches

During the summer of 2012, the Tripartite Consultative Committee (made up of CBEA, ETYK and Police), after a rigorous process of deliberations that lasted over a year, agreed on a number of measures to enhance the physical security of bank branches. Some of these measures have already been implemented by banks - the most noteworthy being access controls to bank branches - whereas the remaining ones will be put into action in the near future, according to agreed predefined timetables. In spite of the worsening of the financial state and the economic climate of the country, it appears that the agreed measures helped decrease the number of robberies against bank branches during 2012.

Dr. Yiannos Rossides
Senior Officer, Industrial Relations

Vasso Michaelidou
Senior Officer, Industrial Relations

5 The ACB

Background

The Association of Cyprus Banks is a non-profit professional body representing the interests of the banking industry and is supported by subscriptions from its members.

Mission

Following the formal accession of Cyprus in the European Union and the consequential harmonization of the domestic financial sector, the major objective of the Association is the coordination of banking policies and the formulation of common positions on several legislative and financial issues, especially in relation to compliance with EU guidelines. In this sense, the mission of the Association is to become a major player on the part of the private sector in evaluating and formulating suggestions on the economic, monetary and financial developments in the light of the globalization process of the world markets and the increasing intensity of competition anticipated in the financial sector. The constant changes in the structure of international banking render the role of the Association essential in evaluating, on time, the impact of global reforms on the domestic banking sector and in promoting the expanding needs of the local banking community.

Our mission is achieved by:

- Promoting the interests and cooperation of members with governmental bodies, the House of Representatives, various Ministries, the media and most importantly the Central Bank of Cyprus.
- Influencing the direction of the local regulatory and legislative framework concerning a broad range of issues relating to banking business and practices both in Cyprus and abroad.
- Collecting a regular flow of documentation and material from local and international organizations regarding economic and financial matters and keeping members informed of developments affecting banking policies and practices.
- Enhancing the relationship with other banking associations, the European Banking Federation, and other influential global organizations in the financial sector. Our goal is for the domestic banking community to adopt international banking practices and know-how.
- Generating a better understanding of the value and quality of banking services and the significant contribution of the banking sector in the economic, social and cultural scene of the country.
- Promoting educational and consultative seminars and training courses to the professional staff of banks and encouraging participation in conferences and seminars organized locally and abroad.

Organizational Framework

Board of Directors: The Association of Cyprus Banks is governed by the Board of Directors, whose members are appointed by member banks.

Chairman and Vice-Chairman: The Association's Chairman and a Vice-Chairman are appointed yearly on a rotation basis by the Board of Directors. These positions are filled by Board Members appointed by the four largest member banks (according to the total number of employees).

Director General: The Director General is appointed by the Board of Directors and heads a team of professional and highly qualified staff, manages the running of the day-to-day activities of the Association, makes recommendations to the Board regarding the Association's policies and internal organization, reports on major issues of its operation and supervises all tasks which have been delegated to him according to the Constitution of the Association.

Working Committees: In order to meet the needs of members and operate efficiently and proactively, the Association has established the following Permanent Interbank Advisory Committees.

1. Committee for Legal Affairs
2. Banking Operations & Policies Committee
3. Economic & Statistical Affairs Committee
4. Financial Markets Committee
5. ICC Committee
6. Fraud & Money Laundering Committee
7. Treasury & Risk Management Committee
8. Banking Supervision Committee
9. Consumer Affairs Committee
10. Communications & Crisis Management Committee
11. Compliance Committee
12. Accounts Committee
13. Ethics Committee
14. Internal Audit Committee

The Permanent Interbank Advisory Committees and Ad hoc Committees analyze information on a broad range of issues concerning banking and financial activities and act as advisory bodies to the Board of Directors. These Committees examine various issues and make recommendations to the Board and subsequently implement the Association's policies according to the Board's decisions. The ACB Committees are composed of representatives of member banks at the highest possible management level in the hierarchy of banks and are delegated with sufficient authority to take decisions.

The Member Banks

Membership of the Association is open to any institution which is legally authorized to operate as a registered bank, whether local or foreign, in Cyprus, and which can provide banking services. Applications are also accepted by other legal entities such as associations or unions, which are non-profit organizations and whose own members are banking institutions. Participation to the ACB can be either in the form of Regular or Associate membership. Applications for new membership are subject to approval by the members of the Board of Directors of the Association and subsequently by the General Meeting.

The bank members of the Association offer a diverse range of products and services. Beyond the traditional deposit and lending services, banks have established their own subsidiaries providing short and medium term credit, hire purchase finance facilities, investment services (such as asset management, investment advice and brokerage), factoring and invoice discounting services, electronic and telephone banking, private banking as well as all types of insurance services.

BANK OF CYPRUS PUBLIC COMPANY LTD

Number of branches: 125
Number of ATM: 135
Number of employees: 3,220
Head Office: 51 Stasinou Street, Ayia Paraskevi, 2002 Strovolos
P.O.Box 21472, 1599 Nicosia
Tel: 22122100, Fax: 22378111, www.bankofcyprus.com

CYPRUS POPULAR BANK PUBLIC CO LTD

Number of branches: 93
Number of ATM: 113
Number of employees: 2,263
Head Office: 154 Limassol Avenue, 2025 Nicosia
P.O. Box 22032, 1598 Nicosia
Tel: 22552000, Fax: 22811489, www.laiki.com

HELLENIC BANK PUBLIC COMPANY LTD

Number of branches: 66
Number of ATM: 73
Number of employees: 1,417
Head Office: Limassol Ave. & 200 Athalassas Ave. Corner, 2025 Strovolos
P.O. Box 24747, 1394 Nicosia
Tel.: 22500000, Fax: 22500050, www.hellenicbank.com

ALPHA BANK CYPRUS LTD

Number of branches: 31
Number of ATM: 34
Number of employees: 755
Head Office: Alpha Bank Building, 3 Lemesou Avenue,
2112 Aglantzia, Nicosia, P.O.Box 21661, 1596 Nicosia
Tel: 22888888, Fax: 22773788, www.alphabank.com.cy

NATIONAL BANK OF GREECE (CYPRUS) LTD
Number of branches: 14
Number of ATM: 17
Number of employees: 273
Head Office: 15 Makarios III Avenue, P.O.Box 21191, 1597 Nicosia
Tel.: 22840000, Fax: 22840010, www.nbg.com.cy

EMPORIKI BANK – CYPRUS LTD
Number of branches: 9
Number of ATM: 10
Number of employees: 192
Head Office: 4 Ionos Street, 2406 Engomi, P.O. Box. 25151, 1307 Nicosia
Tel.: 22696650, Fax: 22663923, www.emporikicyprus.com

USB BANK PLC
Number of branches: 16
Number of ATM: 16
Number of employees: 233
Head Office: 83 Digeni Akrita Avenue, 1070 Nicosia
P.O.Box 28510, 2080 Nicosia
Tel: 22883333, Fax: 22875899, www.usbbank.com.cy

CDBBANK
Number of branches: 2
Number of ATM: 2
Number of employees: 107
Head Office: 50 Arch. Makariou III Avenue, P.O.Box 21415, 1508 Nicosia
Tel.22846500 Fax.22846600, www.cdb.com.cy

SOCIETE GENERALE BANK - CYPRUS LIMITED
Number of branches: 5
Number of ATM: 6
Number of employees: 134
Head Office: 20 Ayias Paraskevis Str., 2002 Strovolos,
P.O. Box 25400, 1309 Nicosia
Tel: 22399777, Fax: 22399700, www.sgbcy.com

PIRAEUS BANK (CYPRUS) LTD
Number of branches: 14
Number of ATM: 14
Number of employees: 309
Head Office: 1 Spyrou Kyprianou Aven., 1065 Nicosia
P.O.Box 25700, 1393 Nicosia
Tel: 80011800 (24 hours), Fax: 22760890,
www.piraeusbank.com.cy

EUROBANK CYPRUS LTD

Number of branches: 7
Number of ATM: 0
Number of employees: 184
Head Office: 41 Arch. Makariou III Ave., 1065 Nicosia
Tel: 22208000, Fax: 22776722, www.eurobank.com.cy

RUSSIAN COMMERCIAL BANK (CYPRUS) LTD

Number of branches: 2
Number of ATM: 3
Number of employees: 186
Head Office: 2 Amathountos Street, 3105 Limassol,
P.O.Box 56868, 3310 Limassol
Tel: 25837300, Fax: 25342192, www.rcbcy.com

Associate Members

A. JSC "TRASTA KOMERCBANKA" CYPRUS BRANCH

B. ASSOCIATION OF INTERNATIONAL BANKS

1. ARAB JORDAN INVESTMENT BANK SA
2. AS EXPOBANK
3. BALTIKUMS BANK AS
4. BANCA TRANSILVANIA S.A.
5. BANKMED SA
6. BANK OF BEIRUT SA
7. BANQUE BEMO SA
8. BANQUE SBA
9. BARCLAYS BANK PLC
10. BBAC SA
11. BLOM BANK SA
12. BYBLOS BANK SA
13. CENTRAL COOPERATIVE BANK PLC
14. CREDIT LIBANAIS SA
15. FBME BANK LTD
16. FIRST INVESTMENT BANK LTD
17. JORDAN AHLI BANK PLC
18. JORDAN KUWAIT BANK PLC
19. JSC TRASTA KOMERCBANKA CYPRUS BRANCH
20. IBL BANK SA
21. LEBANON & GULF BANK SA
22. OPEN JOINT-STOCK COMPANY AVTOVAZBANK
23. OJSC PROMSVYAZBANK
24. PRIVATBANK COMMERCIAL BANK
25. RUSSIAN COMMERCIAL BANK (CYPRUS) LTD
26. SAXO BANK A/S

ACB events in 2012 & 2013

20/06/2012	Annual General Meeting of the Association of Cyprus Banks
02/07/2012	Seminar «Risk-based Internal Audit»
06/07/2012	CBEA hosted in Limassol the 43rd meeting of the Banking Committee for European Social Affairs of the European Banking Federation
14/09/2012	268th Meeting of the Executive Committee of the European Banking Federation hosted in Limassol
23/10/2012	Meeting with the Press
31/10/2012	Meeting with the Press
07/11/2012	Meeting with the Press
05/12/2012	Meeting with the Press
January 2013	Cyprus Banking Insight – Issue No. 9
09/01/2013	Meeting with the Press
28/01/2013	Seminar «Legal Framework employment in Cyprus and the key steps of the disciplinary and audit process»
12/02/2013	Meeting with the Press
27/02/2013	Meeting with the Press
04/03/2013	Seminar «Foreclosure and Forced Sale»
28/03/2013	Meeting with foreign journalists
March 2013	Seminar «Security against armed robberies» - Jointly organized by the Association of Cyprus Banks and the Cyprus Bankers Employers' Association

Design by: Mike Adamou Designs

MAD

Association of Cyprus Banks

15 Demetriou Karatasou Street, 4th Floor, 2024 Strovolos, P.O.Box 16113, 2086 Nicosia, Cyprus
Tel: +357 22664293, Fax: +357 22665135, E-mail: info@acb.com.cy